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Continental Resources, Inc. (CLR) CEO Bill Berry on Q4 2021 Results - Earnings Call Transcript

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Continental Resources, Inc. (CLR) Q4 2021 Earnings Conference Call February 15, 2022 12:00 PM ET

Company Participants

Rory Sabino - Vice President, Investor Relations
Bill Berry - Chief Executive Officer
John Hart - Chief Financial Officer & Executive Vice President, Strategic Planning
Jack Stark - President
Harold Hamm - Chairman
Aaron Chang - Vice President, Oil & Gas Marketing

Conference Call Participants

Scott Hanold - RBC Capital Markets
Nitin Kumar - Wells Fargo
Doug Leggate - Bank of America
Neal Dingmann - Truist Securities
Derrick Whitfield - Stifel
Scott Gruber - Citigroup
Arun Jayaram - JPMorgan Chase
Jeanine Wai - Barclays

Operator

Good day, ladies and gentlemen, and welcome to the Continental Resources, Inc. Fourth Quarter 2021 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to Rory Sabino, Vice President of Investor Relations. Please go ahead, sir.

Rory Sabino

Great. Thank you, Matt. Good morning and thank you for joining us. Welcome to today's earnings call. We will start today's call with remarks from Bill Berry, Continental's Chief Executive Officer; John Hart, Chief Financial Officer and Executive Vice President of Strategic Planning; and Jack Stark, President. Additional members of our senior executive team, including Mr. Harold Hamm, Chairman of the Board, will be available for Q&A.

Today's call will contain forward-looking statements that address projections, assumptions, and guidance. Actual results may differ materially from those contained in forward-looking statements. Please refer to the company's SEC filings for additional information concerning these statements and risks. In addition, Continental does not undertake any obligation to update forward-looking statements made on this call.

Finally, on the call, we will refer to certain non-GAAP financial measures. For a reconciliation of these measures to Generally Accepted Accounting Principles, please refer to the updated investor presentation that has been posted on the company's website at www.clr.com.

With that, I will turn the call over to Bill.

Bill Berry

Thank you, Rory and good morning everyone. We had an outstanding year in 2021, thanks to the quality of our asset base and our talented and exceptionally dedicated team. I can't thank them enough.

Before we begin our call, I would like to wish Jack the best of luck on his retirement later this year. We really appreciate the many years of excellence in service and contribution that he has given to Continental.

There are a few people in an organization that have made as much contribution to the strength of the company, the capabilities of its employees, and the foundation of its culture, and Jack Stark has for Continental Resources. We'll miss him in his daily participation, but are delighted that he has agreed to continue on in a future consulting role on a part-time basis.

I'd also like to introduce our new Chief Operating Officer and Executive Vice President, Doug Lawler, with whom many of you are familiar. Doug brings a depth and breadth of knowledge regarding our industry, and we are very excited to have him join Continental. He is an outstanding leader and a fit for the Continental's culture.

Throughout the call, I'll be referencing our investor presentation, which you can find on our website. Now, I'd like to highlight five key takeaways regarding Continental in this presentation.

First, we are committed to expanding return of capital to shareholders and continuing to deliver industry and S&P 500 competitive ROCE. In 2021, we delivered record free cash flow and a 14.6% ROCE, which is significantly above the S&P 500 average.

In 2022, we are positioning ourselves to deliver another exceptional year with a projected 21% return on capital employed. Our highly accretive acquisitions are further expanding our high-quality inventory and continues to deliver what our investors want, geologic and geographic diversity and commodity optionality, that makes our company both competitive and unique. We will maintain our capital discipline, and we project generating flat to 5% annual production growth over the next five years as we have previously noted.

As you can see on slide 3, our unique value proposition and priorities are clear. We are delivering leading corporate returns. Our projected return on capital employed of approximately 21% in 2022, at our budgeted price of $80 WTI and $3.50 Henry Hub is more than double the average S&P return on capital employed. We are increasing return of capital to shareholders via dividends and share buybacks. We have increased our quarterly dividend by 15% to $0.23 per share, and are targeting a 2% or greater yield long term.

We have increased our significant buyback program from $1 billion to $1.5 billion, which includes $441 million repurchased to date. To put this in context, $1 billion is approximately 30% of our float. We are further enhancing our already strong balance sheet with a target to be less than one times net debt to EBITDA by year-end or earlier.

We have unmatched shareholder alignment. Our inside ownership is industry-leading, with insiders representing six of our top 25 owners. We are continuously and aggressively improving our exceptional ESG performance. One of our key focus areas is greenhouse gas and methane intensity reduction, and we have already accomplished an approximately 40% reduction in greenhouse gas and over 55% reduction in methane intensity for 2016 to 2020. We will continue to see reductions in greenhouse gas and methane intensity, and we are maintaining industry-leading gas capture across our legacy assets. We'll discuss ESG more in a few minutes.

With result to 2021 record results, if you turn to slide 4, our record 2021 results exemplify our value proposition and why our story is so compelling from a shareholder return perspective. First, thanks to our capital discipline and the strength of our operations and execution, we generated record quarter-over-quarter free cash flow for the last four quarters and a record full year free cash flow of $2.64 billion.

As an unhedged oil producer, we were able to capitalize on increasing crude commodity strength throughout the year. Given our unique commodity optionality, our teams in 2020 and 2021 in Oklahoma, we're able to strategically position us to participate in the fundamentally strong gas prices we have witnessed this year by shifting operations to our competitive gas development areas.

Second, we delivered a 14.6% post-tax return on capital employed. As shown on slide 6, Continental's return on capital employed from 2017 through the third quarter of 2021 has outperformed its E&P peers and the S&P 500. In the current environment, where energy fundamentals are strong, as supply and demand rebalances, we believe there is no better time to be an investor in Continental, a US oil and gas producer that can deliver peer and market-leading corporate returns to shareholders. Our increased projected 2022 return of capital employed reflects our capital disciplined approach and strong commodity prices.

Third, we increased our cash returns. We recently increased our quarterly dividend by 15% to $0.23 per share, which equates to a $0.92 annualized dividend and approximately 1.7% yield as of February 8th. This is a 360% increase versus 2019 and is competitive with our peers and the broader market.

Fourth, we also repurchased 3.2 million shares at an average price of $38.74 during 2021. Since we started the program in 2019, we have repurchased 17 million shares at an average price of $26.

Finally, we continue to deliver on our commitment to shareholders by meeting and beating our guidance, as John will discuss later.

For our 2022 outlook, with respect to free cash flow, as mentioned, 2021 was a record year and we expect 2022 to be even stronger with our projected $2.9 billion of free cash flow. That is a 15% free cash flow yield. This is accomplished with our continued capital budget discipline and strong cost management.

As part of our commitment to shareholder capital returns, we are targeting in 2022 returns well in excess of 40% of cash flow from operations through debt reduction, future dividends, and share resources. John will discuss our CapEx budget plans in a moment.

With the continued performance improvements in the Bakken and Oklahoma, coupled with the addition of the Powder River and Permian Basin, we felt it would be beneficial for our investors to have a perspective beyond 2022.

As found on slides eight and nine, we are providing key financials for 2022 to 2025 that highlights the strength of our portfolio. Note, the average return on capital employed is 22% at $80 WTI.

Referring to slide eight, we are projecting significant cash flows with over 55% of cash flow from operations available to shareholders in the form of net debt reduction, dividends and share repurchases. At $80 WTI, our multiyear projection deliver strong cumulative free cash flows of $11.6 billion and a cumulative free cash flow yield of approximately 58%.

Our cumulative free cash flow was approximately our current float at $80 WTI. Even at $60 WTI, our free cash flow was S&P 500 competitive at $6.7 billion, equating to an approximate 33% free cash flow yield.

Our projections are based on a flat year-over-year CapEx relative to 2022, delivering a low single-digit compound annual production growth rate. We are targeting significant cash flow and dividend per share growth over this timeframe.

With respect to our ESG update, for 55 years, we have taken great pride and operating our company with high standards and we will continue to do so responsibly, accordingly, abundantly, and innovatively. We expect our 2021 ESG report will be available in the second quarter of 2022, and we once again look forward to sharing with you our complete results.

Referencing slide 10. In 2021, we delivered record safety performance alongside record performance in our already best-in-class gas capture. We strongly believe the S in ESG is underrepresented in the dialogue, and we spent a great deal of time and effort addressing that important societal need.

In support of that, we have expanded our diversity, equity and inclusion program, elevating our focus in providing training, education and cultural awareness to foster a healthy narrative about mutual respect and understanding. All of this has accumulated in Continental being recognized as a recipient of the 2021 energy ESG top performer award by Hart Energy for our innovations in reducing our environmental impact, social efforts, community contributions, leadership practices and culture. Our ESG program has strong oversight from our Board through our in ESG Committee, and we continue to look for the best, most cost-effective ways to address ESG and greenhouse gas stewardship.

Our long-term outlook, combined with industry-leading insider ownership, our strong focus on returns of capital and return on capital employed, a premier asset portfolio, low-cost leadership, operational excellence and a strong ESG performance continues to set Continental apart from peers. We have proven that we can deliver significant and lasting shareholder value, because we have done it consistently over the last 55 years.

As we're looking out into 2022 and beyond, we are confident that Continental will continue expanding corporate returns and delivering exceptional shareholder value through our growth -- growing dividend philosophy, coupled with what we believe is the most impactful share buyback program in the market given our unique ownership structure.

With that, I'll now turn the call over to John.

John Hart

Thank you, Bill. As Bill mentioned, I will discuss some of the key financial details surrounding our 2022 capital budget and plan. Before I begin, I wanted to highlight that in 2021, we delivered on our guidance pretty much across the board. Production expense per Boe, CapEx and oil production, we exceeded our guidance for natural gas production. We are incredibly proud of our teams for delivering these outstanding accomplishments in 2021.

We have a strong financial message, a message centered on our value proposition to increase shareholder capital returns, deliver leading corporate returns and maintain our balance sheet strength. In 2022, we are projecting another year of strong free cash flow with approximately $2.9 billion of free cash flow at $80 WTI. This is net of approximately $300 million of estimated cash taxes after utilizing our net operating loss.

Our projected free cash flow equates to an approximate 15% free cash flow yield at current market prices. We expect 2022 to be our seventh consecutive year of positive free cash flow. We are projected to deliver 195,000 to 205,000 barrels of oil per day and 1.04 billion to 1.14 billion cubic feet of gas per day in 2022. These volumes are on a two-stream basis. We are currently assessing the volumetric accounting for our newly acquired Permian assets and estimate the delta between two-stream and three-stream is roughly 10% higher for three-stream on our Permian assets.

With $2.3 billion of CapEx in 2022, excluding Franco Nevada's share of mineral cost, this program represents a 45% reinvestment rate at $80 WTI, which reiterates our continued focus on capital discipline.

As we note on Slide 7, excluding our recent expansions to the Powder River and Permian, our legacy CapEx is up only 15% year-over-year due to minimal growth CapEx and inflation. We expect to continue to be a leader in return on capital employed and low operating expenses.

We plan to allocate approximately $1.8 billion to drilling and completion activities with the majority of the increase over last year due to added capital to the recently acquired Powder River and Permian assets, driving solid returns and cash flows.

Remaining capital will be allocated to leasehold, facilities, workovers and other non-D&C capital expenditures. These amounts are up about $100 million year-over-year, driven by the build-out of gas gathering and water systems largely in the Powder River and Permian basins to accommodate full development and facilitate long-term capital efficiencies and cash flow generation.

This non-D&C capital also includes Continental's cash portion of planned spending for mineral acquisitions made in conjunction with our relationship with Franco-Nevada for the carried structure in place, Continental will fund 20% of the 2021 planned mineral spending or approximately $23 million, and Franco-Nevada will fund the remaining 80% or $91 million.

As a reference point, every $5 increase in WTI is expected to increase cash flow by approximately $300 million to $325 million on a pre-tax basis. Thanks to our substantial, sustainable free cash flow outlook, we are projecting significant net debt reduction this year.

Our total debt on December 31, 2021 was $6.8 billion. We have a target to be below 1x debt-to-EBITDA during 2022. Our debt peaked upon completion of the Permian transaction at approximately $7.1 billion and was down to $6.6 billion, as of January 31. We expect to fund the recently announced Powder River acquisition from Chesapeake with internally generated cash flow during February and March and for net debt to continue trending down as we are projected to generate significant free cash flow.

We are well on track towards our one times debt goal. At today's commodity prices, we would expect to achieve this one times target sometime mid-2022. While our 2022 LOE per BOE guidance is modestly above our 2021 level. This reflects our pivoting towards greater oil activity, in addition to our newly acquired assets in the Powder River and Permian Basins, which we believe our teams will be able to further optimize operating costs.

Consistent with our long track record of industry low cost leadership, our single year and multiyear projections currently do not have these efficiencies baked in. which we believe we will capture and see further upside to our operating costs going forward. We continue to layer in natural gas hedges for 2022 through year-end 2023. We have utilized a combination of swaps and collars with an average swap of $3.68, an average put of $3.82 and an average call of $5.25. These positions are summarized in our 10-K. We are largely unhedged for all, as we believe market fundamentals are supportive of price participation due to supply and demand rebalancing.

With that, I'll now turn the call over to Jack.

Jack Stark

Thank you, John, and good morning, everyone. I appreciate you joining our call. I want to begin by saying that Continental is the strongest it has been in my 30 years with the company. When I say this, I mean this from every aspect, including cash flow generation, earnings, capital efficiencies, operational expertise, depth of leadership, technical skills of our employees, and all of this is underpinned by the quality of our inventory that contains some of the best reservoir rock in the industry.

Our recent expansion into the oil-weighted Permian and Powder River Basin has increased our geologic and geographic diversity of our portfolio, adding over 2,000 net undeveloped locations and over 1.5 billion barrels of net resource potential to our already robust inventory.

As it stands today, our existing inventory can grow our production at 5% per year for the next 10 years at an average cost of supply of $35 per barrel. This is approximately $5 lower than our average cost of supply three years ago, which demonstrates the operating and capital efficiencies our teams have achieved and the increasing performance of our inventory. This inventory is also oil-weighted, averaging 56% on a two-stream basis over the 10-year period and approximately 70% total liquids if we were to report on a three-stream basis.

For perspective, approximately 50% of our existing inventory is required to achieve this 10-year projection. And as always, we fully expect to – our existing inventory will continue to grow as we test other reservoirs with excellent potential underlying our existing acreage.

Over the last year, we've added approximately 545,000 net acres to our portfolio with 390,000 in the Powder River Basin and 155,000 in the Permian Basin. Continental is now the second largest leasehold owner in the Powder River Basin, and more importantly, the number one leaseholder in the geologically superior Converse County.

Approximately 73% of this acreage is held by production, which gives us the flexibility for orderly development of these assets. This acreage is also geographically contiguous and predominantly operated by Continental with an average working interest of 64% in the Powder River Basin and 85% in the Permian. The contiguous nature of this leasehold is extremely beneficial as it enables Continental to optimize the development of these assets and maximize capital efficiencies.

Now, I'd like to give you some performance highlights that underscore once again the quality of our assets and our operations that are driving our sustainable cash flow generation. The key takeaway is that, our assets compete with the best in the industry and provide optionality to both oil and gas. In the Bakken, well performance remains strong and can be best characterized by the fact that the 156 new wells put online in 2021, paid out in December.

Our 2022 Bakken program is expected to be equally strong. In Oklahoma, the 74 wells put online in 2021 paid out in 13 months. Much of our drilling and completion activity in 2021 was guest-focused, which pushed the company's average annual natural gas production above one billion cubic feet of gas per day for the first time in company history. We brought on some impressive wells recently in both the oil and gas windows, and here are a few highlights.

In the gas window, we completed a Meramec well that flowed at an average initial 30 day rate of 31 million cubic fee a gas a day This is was produced an impressive 2.5 bcf in its first 90 days and continues to flow at 31 million cubic feet of gas per day. We also recently finished a development of four units that included a total of 13 wells. During the first 15 days, these Meramec and Woodford wells flowed at a combined average rate of 170 million cubic feet of gas per day or 13 million cubic feet of gas per well, and these wells are still cleaning up.

In the oil window, we completed a company record oil producer that flowed at an average initial 30-day rate of 4,000 BOE per day from the Sycamore reservoir, and 82% of the production was oil. This well has produced 170,000 barrels of oil in its first 60 days and continues to produce approximately 3,500 barrels of oil equivalent per day. Based on public records, this well ranks as the number one most prolific horizontal oil well in Oklahoma's recorded history.

We also had a Woodford producer that flowed at an impressive average initial rate of 30-day rate of 2,400 BOE per day, and 67% was oil. These results are outstanding, and they compete with the best in the industry. Based on these results, we have continued to expand our dominant position in Oklahoma, adding approximately 55,000 net acres over the last 18 months in the heart of our Oklahoma assets.

Our expansion into the Powder River Basin couldn't be going any better, thanks to the help of our new employees in Wyoming and a great job our teams have done assimilating our new assets. As planned, we turned 10 wells to production in 2021, and the results are right in line with expectations.

These 10 wells flowed at an average initial 30-day rate of 1,350 BOE per day, and 88% was oil. These 10 wells targeted three different reservoirs, including four in the Frontier, two in the Shannon and four in the Niobrara reservoirs. Our average working interest in these wells was 93%.

We're also off to a great start in the Permian with the help of our new employees and their well-established operations and office in Monahans, Texas. Our teams are doing a great job managing these assets, and we currently have two rigs running and 10 DUCs that have been stimulated and should be turned on to production by the end of the month.

These 10 DUCs were included in the 55,000 BOE per day three-stream production associated with our Permian acquisition that we previously highlighted in November. Our two rigs are focused on full unit development of the proven Bone Springs, Wolfcamp A and B reservoirs.

On the cost side, structural operating efficiency gains in 2021 continue to drive our average cost per foot down by approximately 7% on average year-over-year. In our 2022 budget, we expect modest cost inflation. And given our team's proven track record, we will work to offset much of this through added structural efficiency gains and technology.

As announced last month, I'll be retiring later this spring. So before we move to Q&A, I want to thank all of our long-time investors for your confidence in Continental. I also want to encourage new investors to take a good look under the hood.

As slide six shows, Continental has been delivering extremely competitive returns over the last five years, with returns projected to improve significantly in coming years. But what you can't get just looking at the numbers is a spirit that drives this company.

The culture of Continental is special. It's built on trust. We call it the culture of the possible. Everyone in the company is an explorationist, looking for ways to grow the company and improve performance at every level. It's in our DNA, and it's what drives our great returns.

People here have ownership. Everyone has stock. They are aligned with shareholders, and they take great pride in the company and everything we do. They are driven to be the best. They also know that they are making a difference in the world. They led to great energy renaissance that has given the US the energy security and independence it needs. They know they supply the energy that makes the world work and are proud to be part of -- proud of the part they play to eliminate energy poverty in the world and do so in the most environmentally responsible way.

As an investor or a potential investor, you can be comforted to know that this part will drive success and deliver sustainable financial performance that competes head-to-head with the S&P for years to come. These are the people you want to invest in. I know. I've been fortunate to work with them and work with this outstanding group of people. It's been a wonderful journey for me, and I want to thank all of them for their support over the years. We could not do it without them. And I know Doug is going to really enjoy working with them, and I look forward to introducing Doug to the entire team, both here in Oklahoma City and our field offices. Doug and I have worked together just a couple of weeks, but he has hit the ground running, and I look forward to working with him to provide a smooth transition.

So with that, we're ready to begin the Q&A section of our call, and I'll turn it over to the operator.

Question-and-Answer Session

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question will come from Scott Hanold with RBC Capital Markets. Please go ahead.

Scott Hanold

Thanks. Thanks all. I was kind of curious. Taking a look at your longer-dated guidance to 2025, it does certainly show a pretty good move on oil cuts. And I'm assuming some of that has to do with obviously the PRB and the Permian assets, and you did mention there's some infrastructure build that needs to take place this year. Can you give us a little color on the infrastructure needed in both areas? And is this going to be wrapped up in 2022? And if you could, as part of that discussion, talk about like the PRB. I know GPT rates are a little bit higher there. Is there a way to work that down, too?

Bill Berry

Harold Hamm?

Harold Hamm

Yes. So a couple of things you're asking there. You're getting into the rates and in the facility side of it. And so you saw, and I think in Jack's comments, we had about $100 million in there for some of the facilities, and that's something that you'll see as you go into new areas and new basins. I think that may be a little bit of what you're trying to understand, and we want to make sure that we're clear on that.

There is, if you will, start-up costs as you get into new areas. And there is a facility build-out, both on the water and the gas side. We're unique from a lot of companies that we have a lot of water facilities. We actually have the water facilities in all four of our basins. So as we go into these areas, yes, we're developing those. And then the infrastructure for the gas takeaway is there as well, and so does it continue on.

We expect -- if you look at the numbers now in 2022, that's -- the overall cost is about 24%, something like that. If you look at historically, 2019, that was down around 12% to 14% numbers. So you're seeing definitely a little bit of an uptick as a result of the new assets that we're picking up. And then Aaron, I don't know whether you want to talk about some of the differentials they were talking about there.

Aaron Chang

Sure. Scott, Aaron Chang. One of the benefits coming into a basin that was largely overbuilt from a processing and gathering standpoint was the ability to come in and negotiate some very competitive rates from our standpoint. As we've acquired additional acreage and seen additional contracts, I'm confident we've secured some of the most competitive GP&T rates in the basin.

Jack Stark

Yeah. Scott, I'll just add this infrastructure build-out here is just exactly what we like to do when we get a hold of these assets. We have a clear line of sight of what development looks like. And because of the contiguous nature of our acreage, we're able to do this. And what it does is it extremely benefits our capital efficiencies going forward, just as you've seen what we've done with our positions here in Oklahoma and the Bakken, where we have dominant positions. It really is just the beginning of really starting to drive costs down in these places.

Scott Hanold

Great. That's good color. And maybe if I could just stick on the PRB because I think it is an interesting area to take a look at it. And, obviously, there have been a lot of players that have looked at the basin and drilled through it. And there's, I guess, a market perception that it's a little bit more of a, say, second tier to some other basins out there. But can you give us a sense on how are you looking at that differently, or what are you doing differently? These recent wells you had were pretty impressive. And what is your secret sauce, or what are you attempting to do that others weren't able to do successfully?

Jack Stark

Well, I don't -- I can't speak to the others, but what we're doing is what we always do, and we go in with very detailed geologic assessment and start applying our operational expertise to the area. And every time we do, our teams continue to impress me and our whole executive team on what they can deliver. The reservoirs are there. It's just how do you harvest them. And we are -- and you've got to do it right, you've got to have the right stems. There's just a lot of things. But if you go in and you focus and you concentrate on the assets, if the reservoir is there, you're going to -- we're going to do well. And we're really -- we're doing just what we do. And every play, you go back and look at it. I mean, you look at the results that we have in Oklahoma, for instance, I mean those things have just continued to improve. And so -- and the costs have gone down continually. And just like in the Bakken, you name it. So that's where we're at. And what are we doing differently? We're doing what we always do.

Operator

Our next question will come from Nitin Kumar with Wells Fargo. Please go ahead.

Nitin Kumar

Hi, good morning. Thanks for taking my questions, and I would be remiss not to say congratulations, Jack, on the retirement. I want to start with just this multiyear outlook, you're calling for flat levels of activity, 5% or so growth or mid, low single digits. How committed are you to this? Is this a scenario or a plan for the company? And I guess, really, what I'm trying to get at is, are there any specific macroeconomic conditions that would make you deviate from this road map?

Bill Berry

Yeah, I think in the past, Nitin, if you look at what the comments we've made in this respect is that we don't see any reason for anybody to be able to producing an oversupplied market. And historically, that's been the case, and you're still seeing that there is excess production capacity that's out there. I know we're all trying to understand what's happening with Russia and what it's up to. There's been a bit of a war premium in there that maybe has driven the price up a little bit. That's not good for the world. It's not good for the industry.

But that is something that we look at continuously, what's the right approach. And you see us moving from commodity to commodity, oil versus gas, and sometimes we'll move it back and forth as far as a BOE reduction basis. But we're real comfortable in that 0% to 5% range. So that's probably the appropriate range for us to be looking at long-term.

Nitin Kumar

Awesome. And I guess the second question I wanted to ask was around the buyback. And obviously, you bought back shares at $15 or so in 2020. In 2021, it was about $38. How are you – how do you see the buyback program? Is that – is there a level or a stock price where you feel like your stock is still cheap, or is this more opportunistic you buyback shares when you have excess cash to deploy?

Bill Berry

We've actually got that authorized from the Board, and that's delegated to management to use his judgment and discretion on going out there. And that's what you've seen us do over the years is that we look for opportunities and with what's going on today, and wonder if that's an opportunity. But clearly, it's something that we do focus on what the benefit is to the investors from either buying back the shares. And we do the analysis on saying, hey, we've got a chance to go drill a well or go pick up this lease or go buyback a share of stock, and that's kind of the math that we go through. And we do that about every day, trying to figure out what's the best way to apply those funds.

Operator

Our next question will come from Doug Leggate with Bank of America. Please go ahead.

Doug Leggate

Well, thank you, everyone, Jack. It's been a pleasure. I wish you all very best in your retirement when it comes and I hope to see you before you walk out the door at some point.

Jack Stark

Thanks.

Doug Leggate

So guys, look, I love listening to my peers when they ask about all the different plays and all the different type curves, and all different things that go into that, but I have a very simple way of thinking about this. You're giving us the outputs, and I want to ask you about the outputs, because that's to me what matters. The five-year outlook or the full year outlook, the free cash flow on a cumulative basis. So I want to ask a couple of questions around that. First one is the $30 breakeven. What are you assuming for cash taxes? And John Hart, I guess, the $2.3 billion, can you just be a little granular on whether that is actually the sustaining number or some kind of a transitory number as you build out your newer acquisitions? Because I understand the DMC is only $1.8 billion. So cash tax and the veracity of the $2.3 billion.

John Hart

Okay. So cash taxes, we have $1.2 billion in federal NOL at the end of 2021. At $80 prices, we would expect to fully utilize that this year. The breakeven point on that is kind of in the $60 to $62. You utilize it up to that and above that you're starting to generate some cash taxes. So at the $80 range, we would expect to pay roughly $300 million of cash taxes as we go forward. So we've assumed that occurs this year in the $80 scenario. Assuming strip prices going forward, we've factored in cash taxes at the effective tax rate that you see in the 10-K, so for federal and state.

So that's baked into our free cash flow numbers as we move forward. In regards to CapEx, we're targeting that, as Bill said, that 0% to 5% type growth level, that $2.3 million is roughly the number that we've assumed going forward in that five years. You'll note on the slide in the deck, we indicated flat CapEx, so we've got that baked in at that level. If you're asking, does that give us a bit of growth, yes, that gives us a bit of growth as you can tell from the numbers that are in there.

If you're asking about a maintenance capital, clearly, we could back off that a bit and pull it down to zero. We're not targeting excessive growth or anything of that region. We're targeting cash flow, return to shareholders. I think it's important to note that $11-plus of free cash flow that’s more than our total debt and float combined. I mean that's pretty significant. We think it's a huge value driver.

Doug Leggate

Yes, I appreciate that, John. I understand there's going to be a little bit of growth, but we're looking for the free cash power of the business on an escrow basis. But more importantly, we're looking for it on a sustainable basis. So my second question, and I know Jack is going to hit this because it's been my question perennially with you guys, the sustainability of the run rate free cash flow. You've talked about 10 years growth up to 5%, but that says 50% of the inventory. So are we to believe then that your inventory depth is north of 20 years at this point?

Jack Stark

Well, Doug, that's -- if I was to add in all the exploratory ideas and other things we have in the works, the inventory will be significantly higher. Our assets have multi-pay, stacked pays underneath all these assets. And our teams are diligently looking at and evaluating other opportunities for growth underneath these.

We're trying to be as, I guess I'd say, clear about what we can do with what we have as a line-of-sight inventory at this point. And I think it's pretty darn impressive. And I think it's very -- it's just an outstanding portfolio, and I truly expect to see it continue to grow. If you go back and look in time, I mean we've done nothing but continue to keep an inventory out in front of us that can sustain our growth for 10, 15 years plus, and so that's what we do. And so you've been following us a long time, Doug, and I think you ought to be a believer that we do that.

Operator

Our next question will come from Neal Dingmann with Truist Securities. Please go ahead.

Neal Dingmann

Good morning all, let's say, Jack, thanks for everything. And Doug, welcome. My first question really just a little bit more on shareholder return. You guys are already stepped up to -- it looks like almost 2%, and that's growing and have that substantial payout in place. So I'm just wondering, you talked about this a little bit earlier on being optimistic on the buybacks. But I'm just wondering, will you step up maybe even the – and the buybacks once leverage reaches that one times level, or there certain -- I get it if the stock falls to certain levels, but are there certain other things that you would see? Like if you generate the kind of potential free cash flow, I think you'll have this year, if leverage gets down to 1 as quick as I think. Would that cause you to step up these programs, or would you, at that point, maybe even start setting some cash aside for M&A?

Bill Berry

Yes. I think you're asking the right question. It gets back to the earlier comments we were making about. We're just focused on the return to the shareholders and the return of cash to the shareholders whether that comes through dividends, that comes through buybacks. We also subscribe to paying down the debt, does that as well. And you're right, on a net debt basis, you'll see that rapidly decreasing with current commodity prices.

At that point in time, we're going to look at what the options are, and buybacks are clearly the tool in the toolkit that we can use. Increasing the dividend is another one. That's what we talked about that we're going to be targeting 2% or greater the potential for what the targets were going to be real competitive in that space.

And as Jack talked about on some of the assets we've been able to pick up some of those. Made a lot of sense because we were able to come in, and you're seeing people comment on some of the asset acquisitions that we've been able to obtain at the right price. We have a very, very deliberate, very diligent approach to doing analyses. And so, when you look at M&A, do we do M&A? Yes, you've seen us do it. But I'll put it in context, if you will.

In the Permian Basin, the first time we started looking at getting into the Permian Basin was the turn of the century. And we got close to doing something there, but the deal just wasn't right. So we're pretty deliberate. It took us 20 years of looking for the right opportunity, and that's what led us to the Permian. Same thing in the Powder. We've looked at that for quite some time before we actually made an entry.

So we're not anxious to go do an M&A. But if it's the right thing to do, then we will consider some asset type things like we've done in the past, but clearly focused on the return to shareholders. And with you, we agree there's going to be a capacity to enhance that. John, I don't know whether you have anything to add.

John Hart

Yes, I think if you look over the last year, two years, particularly since we first implemented the dividend, we've sequentially been growing that. We've been aggressively buying shares during that time. And our debt -- at the end of the first quarter, our debt to EBITDA should be around 1.1%, 1.2%.

Now we want to get that down lower on a total absolute balance basis, because commodity prices move up and down. We've got great abilities to continually balancing those, because we're of the significant level of cash flow that we're generating from our assets. So I think we're well positioned.

Bill Berry

Yes. I may add one other thing that I know you would have seen some of the comments from the Federal Reserve, if I can, this morning about, do you want to go and target industries, and so I think that's why you're seeing us and probably the industry at large being very focused on getting that net debt down, because there is potentially a targeting of this industry to not be friendly toward lending money term. And so, you don't want to be in a position there, to John's point, $80 oil price is a good, strong price, but we kind of manage to mid-cycle numbers.

Neal Dingmann

Bill, and one more, if I could. Maybe even for Harold, if Harold could chime, I'd love to see. Bill, you mentioned the M&A potential. You guys have done some nice deals. I'd love to hear, maybe Harold's thought, if I could just on further M&A or even on your recent M&A, you guys, as you said, have been quite active.

Harold, I'd love to hear your thoughts on given where you see prices today, where you think they might go. And based on our numbers, the payback could actually be certainly quite quick on some of these properties. So I just love to hear how you think about where you're buying these things and prices and the payback, how you think about this today going forward.

Harold Hamm

Well, first of all, commodity prices, nobody can predict those, but we do see very strong fundamentals at this time in both oil and natural gas. So that's a pretty good basis for prices to look at the basic fundamentals out there.

I think, first of all, our acquisitions for the most part have been bolt-on, if you will, half we've been working. So that's the first thing. The second thing is opportunistic. Timing has been good in the lower price, and we know that we can go in and sort of the way we operate and get cost down, and that's what we do. And that's what we've done historically in every basin we've operated in, as Jack has mentioned just a minute ago. So if we see the right deal out there, we're certainly looking at those things all the time as we go forward.

Jack Stark

Yes. And Neal, I'd just add that, we're also strategic in our timing on these entries. We -- as Bill said, we had studied and we're well prepared from a technical standpoint to know where we want to go and what we want to do. And if you notice it in the Powder, for instance, we've executed there and build our position 390,000 acres. And based on commodity price run-up, I mean basically, the cost of the acreage is zero for us. And so we've basically got in for the cost of PDP, I guess you could say. And we have all these opportunities sitting in front of us, so we really feel our timing as well as sustaining opportunities, as Harold said, is there's a timing aspect to it as well.

Operator

Our next question will come from Derrick Whitfield with Stifel. Please go ahead.

Derrick Whitfield

Good morning all and congrats to you, Jack, on your retirement.

Jack Stark

Thank you.

Derrick Whitfield

With regard to 2022 guidance, I wanted to ask if you could speak to the general cadence of completions and the shape of your production profile for 2022. I suspect the Bakken is more second half weighted as usual. But is the balance of activity relatively level loaded?

Bill Berry

Well, I'll start with -- and I'll let Jack into a lot of the details on it. But we entered the 2022 with nine rigs going on in the Bakken, and we're now -- next month of around six. And then for the full year, we'll probably average about six and a half rigs in the Bakken, a little bit more than last year, but -- so that's the kind of cadence you'll be seeing us on, on a rig basis.

Jack Stark

Yes. And as far as wells just corporately, you're going to see that on a net basis, it's pretty evenly distributed throughout the year. Last year, we had two quarters where we had a large number of wells come on and then not so many. It was a little lumpy this year. You'll see a more even cadence as we drill and actually start completing more basic what we drill as opposed to having a DUCs in the queue. And also, this inventory, as you see, is migrating now towards more oil-weighted portfolio, and so we're looking at the oil going up to -- what are we seeing guys?

John Hart

Going about 51-ish.

Jack Stark

Yes, about 51%.

John Hart

A little higher, maybe.

Jack Stark

Yes. So, I mean you see the oil basically increasing, and it's just a reflection of us blending in. Obviously, our new assets. And then also, even in Oklahoma, we're going to be migrating more towards oil-weighted inventory in the second half of the year. Now, it takes about six months for that to start hitting the books, and so we'll continue to see more gas-dominated growth or inventory hitting production in the 2022, but that oil-weighted perspective will start hitting in 2022 in Oklahoma.

John Hart

Yes, I would agree. It's fairly consistent through the year. CapEx is kind of in the mid-5s throughout the year with the exception of the third quarter. It's a little more in the third quarter, about $100 million more. That's a level of completion activity. Wells, as Jack said, coming online and pretty consistent with the fourth quarter having a bit more just with the timing of some of our Bakken on Long Creek and some other areas coming on there. But it's a pretty balanced program with some normal type variances that are easily followed.

Jack Stark

Yes, that's a good point, John. In our Long Creek unit there in the Bakken, we're bringing on 22 -- we don't have any wells until the fourth quarter, and we'll be bringing 22 wells on in the fourth quarter and 15 in the first quarter of 2023. So you're going to see a big load, a big slug of wells coming in from the Bakken in the fourth quarter and in first quarter of next year. And that's one of the reasons some people have said oil production could be a little stronger. And actually, it would be if we completed those wells midyear. And so bottom line is it's all just timing and the inventory and those, and the volumes are there, and they'll be coming.

John Hart

So you'll see production growing here, first quarter, going up in the second quarter. Second to third, production relatively consistent. Third to fourth coming -- stepping up a little more with the wells Jack speaking of. So that grows oil rate as well. Thank you.

Derrick Whitfield

All right. Terrific color. And then maybe shifting over to the acquired assets in the Permian. Now that you've closed on the transaction, could you offer some color on your integration process or progress? And on any areas of opportunity you're seeing for improvement on the operating or capital cost side?

John Hart

It's going really well. I mean, we've got -- the new employees we have down there have a good handle on the operations down there, and our teams are working together, and we're growing our, basically, support here in Oklahoma City for what they're doing. And -- but we're just really pleased with where we're at, we're obviously going through, and we're basically getting all operations over time here up to our standards and optimizing everywhere we can. And so there's lots of room for improvement, we believe there, that we look forward to. The teams down there in mind have some great ideas, and I think it's something that we're going to be implementing those, and I think it's going to really do well for us here. And the next year, there are going to be -- I think you'll see a nice improvement in overall performance.

Bill Berry

Yeah. And this one compared to corporate-type M&A, this is asset M&A. So in the assets we've been able to pick up, it's great group of folks, as Jack is saying. But it's 40 to 50 type of people, and so it's really easy to integrate those number of people into our organization. The systems are not as complex because you're doing it on an asset basis. So, all of our focus is actually at the asset level, at the lease level for the integration efforts. So that makes it go a lot faster, a lot quicker. And we're already seeing the synergies that Jack's talking about. Some ideas that we're bringing from other parts of the country to Permian and Powder are starting to pay dividends already.

Operator

Our next question will come from Scott Gruber with Citigroup. Please go ahead.

Scott Gruber

Yes, good morning. So your mix is getting more oily over time. And initially, I would assume that the Permian and Powder is driving most of that. But you mentioned you still have Long Creek, a lot of Long Creek wells still coming on in the Bakken. So is the Bakken contributing some growth through 2025, or is it more a maintenance build on a multiyear basis, albeit lumpy around the Long Creek completion schedule?

Jack Stark

Yeah. Scott, this is Jack. Yeah. It's definitely contributing. It takes the lion's share of capital each of the years in that four-year plan. And when you say what's getting more oil and how is it performing, I mean, the Long Creek is just -- it's a great example of what we still have remaining out there. But I want to add, about 50 miles south of there of the Long Creek unit, we recently completed 21 new wells, plus we did a couple of restem in there. And this is called the RGB unit and these really looked like some impressive wells combined. These 23 wells float at an average initial 30-day rate combined of 33,700 BOE per day, and 83% was oil. And so – and I point this out to demonstrate once again that we have a broad footprint in the Bakken that continues to deliver very sustainable and reliable results across a broad area. And Long Creek is just not a one-off here, and so we have lots more inventory like this that we are going to be able to develop. We're just really pleased with what we're seeing up there. And so, did I answer your question?

Scott Gruber

You did. You did. And then turning to LOE, the guidance moves into the high 3s from the low 3s last year, how much of that is inflation? How much is maybe more maintenance activity? Is that the basin mix influencing that figure? And your forecast through '25 is LOE essentially flat from '22. Or can you work that down both the infrastructure build-out?

John Hart

Great question. I'm glad to give you some color on that. LOE is really just the basin mix. We added in the Permian assets, which I think you know those well. They have a higher lifting costs historically. The Powder River is earlier in its stage of development. So if you go back a few years, it's not that many years ago, 4 or 5, Continental had an LOE rate $5 to $6 corporate-wide. But as we gain greater scale and density in the Bakken, we drove down our rate.

So we added Oklahoma into the mix. We drove down our rate. So as we've assumed the operations in the Permian and as we're moving forward in the development of the Powder River, we expect to drive LOE back down to our type of levels as we go forward. So it's up a little bit this year just due to basin mix. I'll point out that if you look at the oil differential, it's improved, and the basin mix is contributing to that as well.

So from a margin perspective, you're coming out fairly neutral year-over-year, but we do expect to see significant improvement in LOE as we go forward. And it's still a really strong rate. We're guiding, I think, $3.50 to $4 on LOE, but teams are really good at operating.

And going forward on the multiyear, that's upside potential to that multiyear outlook. We've been conservative, I think, in modeling that. We just kept it flat. That's not really what my expectation is. My expectation is continued improvement that. That helps.

Operator

Our next question will come from Arun Jayaram with JPMorgan Chase. Please go ahead.

Arun Jayaram

Yeah, good morning. Just wanted to check, maybe your thoughts on kind of the role of the Permian within the portfolio. Should we think of this as a cash engine or something you'd like to grow over time? And how do you think about the A&D strategy in the Permian from here?

Bill Berry

Well, we consider it a key part of who we are. And there -- as we've talked about before, we've actually been looking at the Permian for quite some time. We are positioned in the Permian, and this is a complementary acreage to the things that we're working on out there. So this is a really strong asset, it would be a big piece of the company for quite some time.

Jack Stark

Yes. Arun, this is Jack. With 155,000 acres in there -- net acres, I mean we've got a lot to do right now, with the assets to stand, especially when you consider the STACK reservoirs and some other exploratory ideas we have out here.

So all-in-all, we see it as being a significant portion of our growth going forward, and it's one of the reasons we're getting into a more oily profile, as we go here over the next -- what, in the next four-year period.

We're not going to dare, what, I think it's around 57% oil by 2025. And so, you'll see the Permian and Powder continue to basically just take -- they're not going to take -- they're going to basically be a bigger part of our program as time goes on here and obviously helps us get more oilier.

Arun Jayaram

Great. And then I had one housekeeping question for John. John, your transport costs or GP&T rose about $14 million sequentially in 4Q. Can you give us some color there and just some thoughts on that line item for 2022?

John Hart

That's some incremental capacity on DAPL is a primary driver of that, that came online. Aaron, was that -- that was late August, weren't they?

Aaron Chang

Yes, Q3 of 2021. So you're just seeing a full quarter's worth of utilization of that expansion capacity from the Bakken.

Arun Jayaram

And that's good for 2022 quarterly?

Aaron Chang

Yes.

Arun Jayaram

Thanks a lot, guys.

John Hart

You’re welcome. Good to talk to you.

Operator

Our next question will come from Jeanine Wai with Barclays. Please go ahead.

Jeanine Wai

Hi. Thanks for taking our questions.

Jack Stark

Absolutely.

Jeanine Wai

Congratulations on your retirement, and we look forward to working together.

Jack Stark

Thank you.

Jeanine Wai

Our first question, maybe just following up on some of the shareholder return questions from Nitin and Neal. On the 40% target for this year, can you talk again about how you envision the split between the debt paydown beyond the revolver and buybacks?

And I guess, when we look at your debt maturity stack, you've got make-hold premiums do those -- does the stack and then the premium, does that push you more towards buybacks to get over that 40%? And is that 40% something that you'd consider extending beyond 2022?

John Hart

Well, it's a good position to be in with the north of $3 billion of cash flow -- free cash flow at today's commodity price, we're well positioned to take advantage in all of those market. So we're going to get below 1x on debt-to-EBITDA very quickly here. We're a large company. We've got a lot of cash flow, but we're going to do that. And I think we're going to be doing a lot of this simultaneous.

As you've seen, we've been increasing our dividend quarterly since reinstituting it last year. It's very strong, competitive. We've given a signal towards a longer term. As far as the split between debt reduction and buybacks, we've got some maturities in 2023.

We'll certainly take those out by the balance of this year, and we've got a little bit in 2024 as well. But we've got a lot of optionality, and we're going to keep that optionality between buybacks and debt reduction as we see opportunistic opportunities.

Jeanine Wai

And is the 40% something you'd push forward maybe to 2023 onwards?

Bill Berry

Clearly, if you look at the cash flow generating capability of the kind of commodity prices out there, I think you're going to be seeing ranges in that area.

John Hart

That's why we gave the indication on the multi-year free cash flow generation as well to give you that context.

Jeanine Wai

Okay, great. Thank you for clarifying that. Our second question is on 2022 oil production, maybe following up on Scott’s. You provided that nice breakout by CapEx by area and the Bakken came in meaningfully better than our forecast, and we're guessing Long Creek has a lot to do with that. I'm not sure I quite caught all the quarterly commentary, but can you discuss how oil production will trend for your legacy assets either year-over-year or exit to exit? And I know there's some apples-to-oranges-type stuff going on with the guide with all the acquisitions. So just can you clarify what's assumed in the oil guidance for the year for the Chesapeake assets, which I think are closing late next month? Thank you.

John Hart

So the Chesapeake assets are not baked into our guidance now in terms of production. In terms of CapEx, we don't expect it to have an impact on CapEx. We'll reallocate rigs. We've got -- we're operating two rigs in the Powder River and expect to remain in that level. It will have a little bit of a production benefit, obviously, with the PDP and as we go forward. So we'll true that up after closing on that transaction.

What we referred to on production earlier was really kind of looking at an overall look. Growth, first to second quarter. Second to third, a little bit flatter. Third to fourth, stepping up. The third to fourth is really driven by what Jack referenced earlier on Long Creek. And the -- I think it's roughly 22 wells coming on in Long Creek late third quarter, early fourth quarter.

So -- and you see CapEx syncing up with that, with a little more in the third quarter related to completions activity to bring those on. So hopefully, that gives you some cadence. Obviously, Long Creek is Bakken. Obviously, that's a very oil-rich basin. So clearly, you're seeing the oil step up with that as well. So...

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Rory Sabino for any closing remarks.

Rory Sabino

Great. Thank you, Matt. We're five minutes past the hour here. Certainly, I want to be respectful of everyone's time. Please address further questions to the IR team. Thank you very much for joining us today, and have a great day.

Bill Berry

Thanks, everyone

John Hart

Thank you.

Operator